



City of San Diego

Amending San Diego Municipal Code to Provide for
Formation of a Convention Center Facilities District

Committee on Budget and Finance

September 21, 2011



Background

- The City has been working with the hotel community to develop a funding mechanism for the Convention Center Phase III Expansion Project
- Contemplated funding mechanism would involve City-wide Convention Center Facilities District - CCFD
 - Similar financing mechanism authorized under the Mello-Roos Community Facilities Act of 1982, which City uses to finance public infrastructure through creation of Community Facilities Districts - CFDs
 - Provide significant portion of funding for Project through issuance of tax exempt bonds secured by special taxes levied on hotel properties



Background

- Optimal financing mechanism for the Project
 - Ideal for issuing bonds
 - Flexibility to handle general benefit created by the Project
 - Incorporates a tiered levy and establish City-wide
 - Ability to tax new hotels in the future
 - Special tax not subject to Prop 26
- Tested structure – funding mechanism used to finance San Jose's Convention Center
 - San Jose received a default judgment validating all actions associated with their CCFD



Municipal Code Amendment

- Action is an amendment to the Muni Code to provide a legal framework for forming a CCFD the City's Charter Authority
- Muni code amendment modifies Mello-Roos Act to incorporate
 - Taxation of hotel properties through a collection method comparable to the City's TOT collection method
 - A vote weighting methodology based on hotel room revenue
- Proceeds of special tax from hotel properties subject to use solely for Convention Center Expansion construction and related costs



Muni Code Amendment

- First step to form the District
- Adoption of the amendment does not lead to formation of a CCFD; only provides a framework for forming such a district
- Formation of a CCFD requires several legislative actions and an election process
- If the proposed Municipal Code amendment is approved, staff will develop the necessary legal documents to form the CCFD



CCFD Project Funding

- If CCFD is formed and special tax levied with hotel property owners approval estimated revenue from the district is \$29 - \$33 million
- A detailed financing plan, incorporating other funding sources for the Project, will be developed and the City Council will be briefed during subsequent steps in the CCFD formation process
 - Outreach to hotel owners/operators is on-going
 - Significant community outreach is expected prior to City Council actions related to formation of the CCFD



Municipal Code Amendment

- **Key Elements**

- Special tax on the property owners
 - A special tax lien would be placed on the property
- Electors are owners of the property on which hotels are located
- Votes allocated in proportion to proposed special tax burden
- Weighted vote based on hotel room revenue and 3-2-1 special tax rate



Muni Code Amendment

- **Key Elements**

- Special taxes collected and administered in the same manner as the City's TOT
- If the property owner is a public entity, Municipal Code amendment specifies that the lessee of the governmental entity is the property owner
 - In such cases, the leasehold interest would be subject to special taxes



Special Tax

- Special Tax formula is set forth in the Rate and Method of Apportionment
- Taxing formula is adopted in conjunction with Resolution of Intention to Form the District
- Taxing formula expected to involve a three-tier structure, based on percentage of room revenue and proximity to the Convention Center:
 - Downtown - 3% of room revenue
 - Mission Bay and Mission Valley - 2% of room revenue
 - All other City locations - 1% of room revenue
- Special tax secured by a lien on the real property that is subject to the special tax in the CCFD



Special Tax Voter Approval

- Imposition of the special tax requires two-thirds voter approval of the qualified electors property is subject to the special tax
- Prop 26 not applicable - As a special tax, a two-thirds vote of the qualified electors is already required pursuant to the proposed Municipal Code amendment and relevant State law



Milestones

- Targeted Legislative Time-line for CCFD Formation

September 2011	– Introduce Ordinance Amending the Municipal Code
October 2011	– Second Reading of Ordinance Amending the Municipal Code
November 2011	– Adoption of Resolution of Intention to Form District
January 2012	– Public Hearing; Adoption of Resolution of Formation of District
April / May 2012	– Election Held (mailed ballots) – Certify Election Results; Introduce Ordinance Levying Special Tax
June 2012	– Effective Date of Ordinance Levying Special Tax



Requested Action

- Forward the action to City Council for consideration and approval:
 - Amending the San Diego Municipal Code to provide for formation of a Convention Center Facilities District to provide funding for the San Diego Convention Center Phase III Expansion Project